

Innovations for Scale and Sustainability in EITC Campaigns

Market Research to Inform Asset Development Strategies: Lessons from Philadelphia and Louisville



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I. Introduction

The Annie E. Casey Foundation has been an active supporter of Earned Income Tax Credit Campaigns across the United States. Building on existing infrastructures in their communities, these campaigns provide: (1) education and assistance to promote the EITC and other tax credits for qualified working poor families; (2) free or low-priced quality tax preparation services; and (3) links to other programs and services so that tax filers can use their refunds to begin building financial assets.

While the campaigns have helped hundreds of thousands of low-income workers receive tens of millions in tax refunds, they have proven to be expensive and labor-intensive to operate. Given the campaigns' ambitious goals and limited resources, there has been increasing interest in identifying alternative models that have greater potential for scale, sustainability and impact. Beginning in late 2003, the Aspen Institute began identifying sites interested in piloting innovations (providing technical assistance and grant support in some cases) and documenting the results of these early efforts.

Among these innovations, EITC campaigns in Philadelphia and Louisville undertook community-based market research efforts to learn about the financial situations of low-income workers, what types of financial services they currently use, what are their financial needs and goals, and what outreach methods and messages resonate strongest with them.[†] The goal of both was to better understand the low-income market for financial services in order to design asset-building approaches that have more likelihood of achieving scale and impact.

II. The Philadelphia Experience

In its first two years of operation, the Campaign for Working Families (CWF) has prepared tax returns for more than 18,000 low-income Philadelphia residents, helping them receive \$27.3 million in federal and state tax credits. The campaign also opened 400 new bank accounts so taxpayers could receive their refunds by direct deposit. CWF has exceeded its operational goals regarding EITC outreach and free tax preparation, and believes it can continue to build on its success to expand both of these areas.

* Special thanks to the following individuals, who provided information and assistance in developing this paper: Jean Hunt, Greater Philadelphia Urban Affairs Coalition; Carroll Neal, Members First Federal Credit Union.

[†] In both cases, the market research was undertaken in consultation with New England Market Research, Inc. The data included in this paper is adapted from reports by that firm.

More challenging has been connecting families served by the campaign with resources to help them build assets and improve their financial situations. In September, 2004, the campaign held seven focus groups with a total of 83 participants. CWF hoped to use what it learned to both better match services with families' interests and needs, and develop more effective methods of marketing those services to the community. The research attempted to answer the following questions:

- Where do families get their taxes done and why?
- Why do families use Refund Anticipation Loans (RALs)?
- Are families familiar with free tax preparation and what do they say about it?
- What financial services do families use and why?
- What are people's savings habits and goals?
- What financial information do people want?
- What would be effective marketing strategies for reaching these families?

Tax Preparation and RALs

- Approximately one-third of participants use paid preparers or free tax sites; a third use friends or relatives; and a final third do not file. Convenience – location, hours, and speed of service – are the main reasons people choose a commercial preparer.
- Fewer than 25% of participants were aware of the CFW free tax sites. People are very suspicious of free tax preparation; they expect that either quality will be poor, there will be a long wait, or there is some other catch. Many associate free tax prep only with the IRS walk-in centers, and there is additional mistrust of the IRS.
- Participants mistakenly believe that using a commercial preparer – and getting their refund quickly – will somehow keep the IRS from withholding their refund to pay for student loan debt or another government liability.
- The majority of people who used RALs were aware they were taking a loan and knew they were paying a high price for it. Asked how much money they would take right away if they could get a \$1,000 refund in 30 days, most participants said they would wait to receive the full amount; others were willing to forego up to \$200. But all acknowledged that it would depend on whether they needed the money right away.

Banking, Saving and Use of Refunds

- Many participants have a savings or checking account; 34% have bank accounts and 12% are members of a credit union. People choose their financial institutions for convenience (location and hours) and trust (used by their employer or family).
- Few participants save their tax refund, though some say they tried to save some of it. Most commonly, refunds are used to pay off debt and bills, or to buy day-to-day items, especially for their children.
- Participants understand the importance of saving and almost all have some savings, though the amounts are small. Savings are as likely to be kept “under the mattress”

as in a bank account. Some distrust banks while others are concerned that having money in the bank will affect their public benefits.

- People are saving for the same things higher-income families save for: college, a house or car, or to leave behind for their children. Participants expect to use any savings for emergencies, such as losing a job, eviction or emergency medical care.

Financial Education and Marketing

- Most participants have received financial advice, mostly from their parents or another family member. The advice has focused on the importance of savings and budgeting, and they tend to pass the same advice on to their own children.
- Participants' interest in financial education focuses on the problems they face, including credit repair, getting out of debt and paying off student loans. Participants suggested that the best format for financial education would be small groups – as opposed to a large class or one-on-one – so they can get feedback from others.
- Participants suggested a variety of marketing outlets, including flyers, radio and television, and bus advertisements. Participants also suggested advertising in coupon circulars, because people actually read them (especially people looking to save).

III. The Louisville Experience

In Louisville, market research was undertaken by Members First Federal Credit Union, a lead partner in the Louisville Asset Building Coalition. Members First operates a branch in the NIA Center, a public building that houses a variety of offices and is also a public transportation hub in the city. Members First had hoped the location would provide opportunities to promote banking services to low-income community residents, but has had difficulty engaging customers at the branch. The market research was designed to help Members First better match services with community needs and develop a targeted outreach campaign. The research focused on the following questions:

- Are people aware of the NIA Center and Members First?
- What financial services and institutions do people currently use, and why?
- What financial products and services do people want?
- What individuals and institutions would influence their financial decisions?

Two hundred twenty-seven individuals were interviewed over four days in May and June, 2004. The surveys were administered at three locations: the NIA Center entrance and two nearby supermarkets. Following the survey, focus groups were held with 22 people to gather more detailed information.

Use of Financial Products and Services

- Residents already have relationships with financial institutions. Most (79%) survey respondents and all focus group participants have a checking or savings account.

Residents also use fringe financial services (check-cashing, money orders, short-term lenders and finance companies) though to a lesser extent than expected.

- Residents largely did not know about the credit union. Even though 64% of those surveyed were familiar with the NIA Center, only half of those (34%) were familiar with Members First. Furthermore, focus group participants were confused about what a credit union is and does.
- Convenience was by far the most important reason cited as to why residents use a particular financial institution – and was much more important than price or fees. Convenience was defined by location, hours (evenings and weekends), ATMs (number and location, including drive-through), connection with employer for direct deposit, and ease of opening an account.
- Banked residents are employed full-time at twice the rate of those without accounts. Survey respondents who have a bank account are also more likely to use check cashers and money orders than those who are unbanked (68% compared to 44%, and 33% to 20%). (It may be that they use financial services more in general because they are working more.)
- When asked what services they would like from the credit union, focus group participants listed traditional banking services: checking and savings accounts (especially no-fee accounts), ATMs, Certificates of Deposit and loans.
- Only 18% of those surveyed identified banks as where they would borrow money. Respondents turn most often to family, followed by a bank or credit union. Friends, payday lenders and finance companies were cited by only 4% of respondents each.

Financial Education and Marketing

- Survey respondents were asked to rank the influence of various individuals and institutions on their banking decisions. Of the four choices, family members were ranked by far the highest, with advertising somewhat influential, and pastors or community leaders ranked hardly influential.
- Asked who they trust for information, all survey options received relatively high scores, with the church ranked highest, followed by a bank, school, government, newspaper and television. Those with bank accounts were more likely to rank banks as a trusted source.
- Similarly, focus group participants ranked the church highest on trust, and government and television lowest. Participants were skeptical about the motives of anyone entering their community and promising services. Personal experience was the most influential factor in financial decision-making.
- Focus group participants suggested that financial education should begin with young people, including family-friendly savings accounts and family-oriented messages.

IV. Lessons for Scale, Sustainability and Impact

While EITC campaigns have completed thousands of tax returns and spread the word about the credit in their communities, they have struggled with engaging working families in asset development. Figuring out how to make this connection is a key challenge to future growth and impact. Based on the experiences of Philadelphia and Louisville, market research provides opportunities to better understand the target audience and make changes that can increase program success. These changes relate to three factors: what services are offered, how they are offered and how they are marketed. Some of the tentative lessons from the two cities include:

- People may be more connected with financial institutions than campaigns have assumed. If this is the case, goals may need to shift from banking the unbanked to marketing a better alternative for basic services and/or addressing other unmet needs.
- Convenience is far and away the most important factor influencing people's decisions about use of financial services and tax preparation. Campaign operations need to recognize this and marketing should emphasize it.
- A related lesson is that people know they are paying a high price for tax preparation, RALs and other services. Campaigns should emphasize the price difference, but only in conjunction with marketing of convenience, service and quality.
- People know they should save and want to save, but are unable to do so. There may be an opportunity to engage people if campaigns can offer a realistic answer to this dilemma.
- There is still a lack of knowledge (and some misconceptions) about credit unions, free tax preparation and asset-building programs. There is also a great deal of skepticism about the motives and service of anything offered for free. Outreach needs to address both of these concerns.
- People's pressing financial questions revolve around the problems they face, especially debt and credit repair. Financial education can draw people in by offering help with these needs.
- Meeting the needs of their children – both day-to-day and longer term – is a major focus when people think about their finances. Both services and marketing may be able to engage working families by talking more about their children.

Despite the opportunities suggested above, however, key questions remain. In particular, it is unclear to what extent these types of changes will enable campaigns to achieve substantial increases in both asset-building participation and asset-building success. Furthermore, even if campaigns are able to achieve greater scale and impact as a result of more sophisticated market research, how will the field pay for this expansion? The question of sustainability remains a critical one for the future.